

OILEXCO INCORPORATED

Redefining the Future

ANNUAL REPORT 1995

OILEXCO
INCORPORATED

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1995 ANNUAL REPORT

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Corporate Profile

Oilexco Incorporated is a Canadian energy company committed to achieving growth and creating shareholder value through oil and gas exploration and strategic reserve acquisitions.

Oilexco's exploration program targets high quality hydrocarbon reserves and production in five core areas: the Port au Port area on the west coast of Newfoundland, the Edson area of west central Alberta, the Senex/Talbot Lake area of north central Alberta, the Creelman/Hartaven area of southeastern Saskatchewan, and Mountrail County, North Dakota. The Company also holds an interest in and operates a number of shallow Viking Sand oil wells in the Forgan area of southwestern Saskatchewan.

The common shares of Oilexco Incorporated are listed for trading on the Alberta Stock Exchange under the symbol "OIL".

Annual General Meeting

The Annual General Meeting of shareholders of Oilexco Incorporated will be held on Thursday, May 30, 1996, at 3:30 p.m. in the Royal Room, Metropolitan Centre, 333-4th Avenue S.W., Calgary, Alberta.

Financial Highlights

(\$000's, except per share data)	1995	1994
Gross Revenues	638	869
Funds from Operations	20	309
- per share	Nil	0.04
Net Earnings (loss)	(256)	68
- per share	(0.04)	0.01
Capital Expenditures	259	1,693
Bank Loan	80	—
Shareholders' Equity	3,308	2,171
Outstanding Common Shares	7,443	8,427

Operating Highlights

Production		
Crude Oil (Bbls/d)	57	70
Reserves		
Crude Oil and Natural Gas Liquids (Mbbls)	192	278
Natural Gas (Bcf)	3.9	5.0
Barrels of Oil Equivalent (Mbbls)	580	778
Land (net acres)		
Developed	872	758
Undeveloped	13,799	19,850
Developed and Undeveloped	14,671	20,608

Abbreviations

Bbls	Barrels
Bbls/d	Barrels per day
Bcf	Billion cubic feet
BOE	Barrel(s) of oil equivalent *
Mbbls	Thousand barrels
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
NGL	Natural gas liquids
WTI	West Texas Intermediate

* Barrels of oil equivalent (10 Mcf = 1 BOE)

LETTER TO SHAREHOLDERS

A Year of Transition for Oilexco

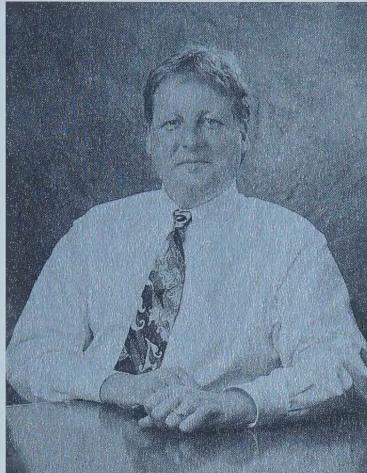
On behalf of the Board of Directors, I am pleased to report that Oilexco Incorporated has emerged from 1995 as a revitalized corporation, well positioned for growth in 1996.

Nineteen ninety-five was a year characterized by weak markets for junior oil and gas companies. For Oilexco, it was a year of transition, as the Company pursued exploration opportunities beyond its 1994 core areas in order to enhance shareholder value.

Management targeted prospects in west Newfoundland as having the potential to redefine Oilexco's future. Prior to the area attracting considerable interest among other petroleum companies, Oilexco was focused on acquiring an interest in west Newfoundland for many strategic reasons. The area has the potential to yield very large oil reserves and, unlike Hibernia, producing fields will be located either onshore or in offshore areas close to land, thereby reducing the time and cost necessary to develop the reserves.

Having considerable knowledge of west Newfoundland, Oilexco entered into a farmin agreement with Talisman Energy Inc. on an offshore exploration licence encompassing St. George's Bay, located immediately south of the Port au Port Peninsula.

Exploration is presently occurring on onshore and offshore locations, with activity and attention centered on the Hunt/Pan Canadian Port au Port #1 well, located on the western tip of the Port au Port Peninsula. Owing to its confidential status, information on the well is sparse, but what is available indicates a significant oil discovery.



Winspear Business Reference Rock
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

Oilexco believes this area will host the most important oil discoveries in Canada over the next two to three years and, currently, Oilexco is the only junior company with working interest exposure to west Newfoundland. The first Talisman/Oilexco et al well, spudded on February 24, 1996, is being directionally drilled from an onshore surface location to an offshore subsurface location, in order to evaluate a structure that the

Company believes to be common to that tested by the Port au Port #1 well. The well site is located approximately 1.5 miles southwest of Port au Port #1.

Oilexco's share price responded favourably to our participation in west Newfoundland. Closing share price on December 29, 1995, was \$1.55 per share.

Equity Financing Raises Significant Capital

Oilexco entered into two financing agreements with Yorkton Securities Inc. which raised total gross proceeds of \$13,800,000.

In the first agreement, dated December 21, 1995, Oilexco issued and sold 4,467,405 Common Shares and 1,088,151 Common Share Special Warrants at a price of \$0.90 each, for gross proceeds of \$5,000,000. Each Common Share Special Warrant entitles the holder to one Common Share. This placement closed January 17, 1996; however, prior to year end, the Company received \$1,500,000 of the gross proceeds.

Subsequent to year end, a second agreement, dated January 31, 1996, involved the issuance and sale of 3,350,000 Units and 1,050,000 Unit Special Warrants at a price of \$2.00 each, for gross proceeds of \$8,800,000. Each Unit comprises one Common Share and one-half of one Common Share Purchase Warrant. Each Unit Special Warrant entitles the holder to one Unit. Each whole Common Share Purchase Warrant entitles the holder to purchase one Common Share for \$2.40 until January 31, 1997.

The estimated net proceeds from the financings amounted to approximately \$12,700,000, and will be used to finance the Company's activities in west Newfoundland, western Canada and North Dakota USA, to eliminate debt and to assist in financing any potential production acquisitions.

A Solid Base for the Future

With Oilexco's entry into west Newfoundland in 1995, and the considerable upside potential in that area, the Company is well positioned for future growth. As well, the Company's holdings and planned activity in western Canada show significant potential. Oilexco's current land position consists of 44,024 gross acres (14,635 net). Proven and probable reserves total 192,000 barrels of oil and natural gas liquids and 3.9 billion cubic feet of natural gas net to the Company. By year end 1995, Oilexco's net production was approximately 57 barrels of oil per day.

Commitment to a New Direction

Oilexco's work toward redefinition in 1995 and its goals for 1996 reflect the Company's commitment to growth. Oilexco will continue to create and enhance shareholder value by:

- drilling a well to test the Port au Port prospect; subsequent to year end, the well, Talisman et al Long Range A-09, commenced drilling and is expected to reach target depth early in the third quarter of 1996

- making a strategic acquisition with upside drilling potential in order to increase the Company's asset base and stabilize cash flow
- re-evaluating the Wild River Project at Edson, Alberta
- acquiring additional lands on new prospects in core areas
- reducing operating costs on a BOE basis
- farming out exploration prospects when necessary

Oilexco has a strong balance sheet, lean operating structure, substantial land base, balanced exploration approach and seasoned management team. We will continue to conduct our affairs cautiously, balancing risk with reward in locating large reserves of oil and natural gas and developing value-added exploration and development prospects.

I would like to thank our shareholders for their continued interest and support in the Company. I would also like to thank Bill Smith and Phil Swift, who will be retiring from the Board effective May 30, 1996, for their contributions to Oilexco over the last three years. With the benefit of sound advice and counsel from our strong and experienced Board of Directors, and the continuing hard work of our highly skilled team of professionals, I am very optimistic about the Company's future.

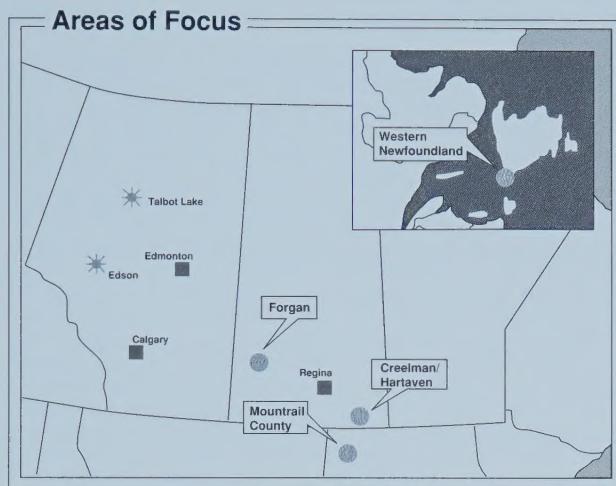
On behalf of the Board of Directors,



Arthur S. Millholland,

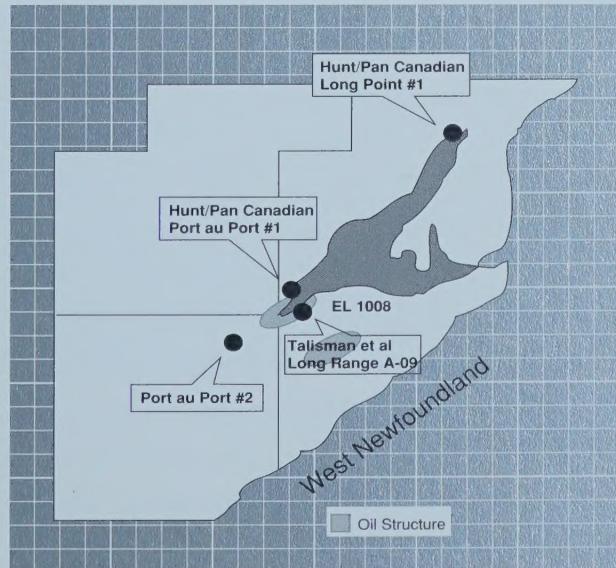
President and Chief Executive Officer

April 15, 1996



West Newfoundland

Oilexco's exploration activities in west Newfoundland consist of its participation with Talisman Energy Inc. in the farmin on a block known as Exploration Licence 1008 ("EL1008"). EL1008 encompasses St. George's Bay, located immediately south of the Port au Port Peninsula. Under the terms of the farmin, Oilexco has committed to drill and case or abandon a 3,550 metre test well to earn a 12.5 percent interest in EL1008. To this end, the Talisman et al Long Range A-09 well was spudded February 24, 1996, and is expected to reach target depth early in the third quarter of 1996.



The exploration targets in west Newfoundland include Ordovician dolomites of the St. George's Group. Within this thick interval, the Aquathuna and Catoche formations have the potential to be the best reservoirs because of the possible enhanced porosity and permeability caused by dissolution and faulting. The trapping mechanisms consist of large, possibly fault-bounded, anticlinal structures which have been defined by seismic. Two key aspects of the west Newfoundland play are the potential for very large oil reserves, and reduced development time and costs due to onshore or near offshore locations of the potential producing fields.

Interest in west Newfoundland heightened with the drilling of the Hunt/Pan Canadian Port au Port #1 well in 1994 on onshore block 93-102. Although little information about the well is available, due to its confidential status, the following evidence suggests the well encountered hydrocarbons:

- the well was licensed to a depth of 4,572 metres
- testing conducted at an unknown depth produced a red-orange flame 10 to 20 metres in length
- the rig was released on June 9, 1995, and on December 4, 1995, the consortium of Hunt/Pan Canadian and Mobil entered into an agreement with the Canada-Newfoundland Offshore Petroleum Board (C-NOPB) to consolidate the surrounding blocks into one licence.

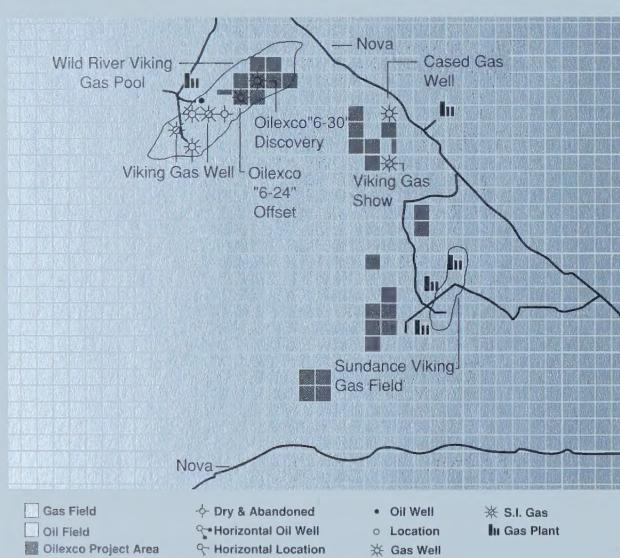
EL1008, in which Oilexco is a partner, lies adjacent to and immediately south of EL 93-102 and is surrounded by the blocks Hunt/Pan Canadian retained after drilling Port au Port #1.

As well, another structural prospect is located on EL 1008, 15 kilometres south of the Talisman et al Long Range A-09 well. This structure is entirely within the land in which Oilexco has an interest.

Forgan, Saskatchewan

Oilexco's principal producing oil property is located in the Forgan West oilfield of west central Saskatchewan, situated approximately 260 miles east of the city of Calgary, Alberta. The Company owns varying working interests in approximately 5,760 gross acres (2,901 net) and has an interest in 34 oil wells, the majority of which produce 33° API gravity crude oil from the Lower Cretaceous Viking formation. Production averaged 57 barrels per day net to Oilexco in 1995.

Edson, Alberta



Oilexco holds interests in four project areas near Edson, Alberta: Wild River, Sundance West, Sundance East and Oldman.

Wild River

The Wild River project area is located approximately 130 miles west of Edmonton, Alberta. Oilexco holds an average working interest of 19 percent in 5,440 gross acres (1,034 net) containing two shut-in gas wells drilled and completed in 1994 and capable of producing from the Viking and Bluesky formations. The operator

is currently evaluating the feasibility of facilities construction and pipeline tie-in. To facilitate this process, the operator has proposed and received approval from the Joint Interest Owners, including Oilexco, for the retesting of a well at 6-30-56-22 W5M. Final approval of facilities and pipeline construction by the Joint Interest Owners is expected by the summer of 1996. If approval for construction is granted by the Joint Interest Owners, construction would be initiated in the fourth quarter of 1996 with natural gas deliveries commencing in the first or second quarter of 1997.

Sundance West

The Sundance West project is a multi-zone oil and gas prospect defined by seismic and regional geology. Oilexco holds a 19 percent interest in 7,680 gross acres (1,460 net). The Company maintains a 10 percent carried working interest and a nine percent working interest on all expenditures in this project under a previous joint venture, up to and including the drilling, completion, testing or abandonment of the first test well drilled on the prospect lands or until expiry of the leases associated therewith.

Sundance East

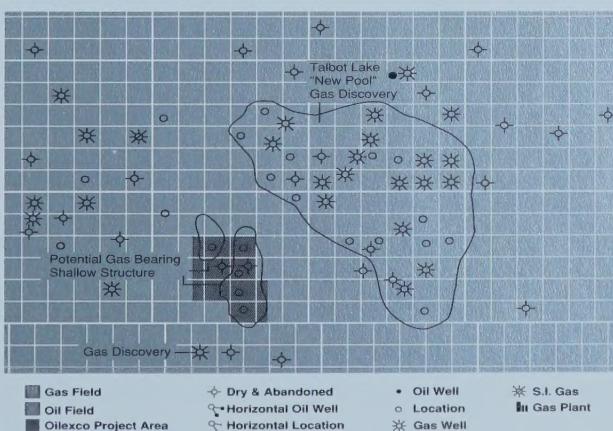
The Sundance East project is an oil prospect targeting an Upper Cretaceous Belly River formation channel. Oilexco holds a 55 percent working interest in 1,280 gross acres (704 net) and is the operator of this project. In January, 1996, the Company recompleted the Belly River zone in an existing well bore by way of a farmin. During testing, the well produced 39° API crude oil at an unstabilized rate with high percentages of produced water. Operations are currently suspended due to high water disposal costs. Oilexco is currently evaluating the possibility of drilling an off-setting well on adjacent lands in a structurally higher position.

Oldman

The Oldman project is a multi-zone gas prospect targeting Upper and Lower Cretaceous sandstones. The prospect is well defined seismically and geologically. Oilexco holds a 19 percent interest in 4,160 gross acres (790 net). The Company maintains a 10 percent carried working interest and a nine percent working interest on all expenditures in this project under a previous joint venture, up to and including the drilling, completion, testing or abandonment of the first test well on the prospect lands or until expiry of the leases associated therewith.

Senex/Talbot Lake, Alberta

The Senex/Talbot Lake project is a gas and oil prospect located approximately 250 miles northwest of Edmonton, Alberta. Oilexco has a 19 percent working interest in 6,080 gross acres (1,115 net) of exploratory acreage. The Company has a 1,600 kilometre regional seismic database of this area; seismically defined features on Oilexco acreage are similar to nearby features successfully drilled by industry competition, thus minimizing risk.



The Company has identified five multi-zone drilling locations on this oil and gas prospect. Natural gas prospects are found at shallow depths of 500 to 700 metres in Devonian Wabamun and Lower Cretaceous Bluesky Formations. Oil prospects are found at moderate depths of 1,200 to 1,300 metres in Middle Devonian Granite Wash sandstones. The oil and gas targets of Senex/Talbot Lake are not exclusive and would require separate test wells. Intense industry drilling activity targeting shallow natural gas has occurred in the vicinity of Oilexco's lands during the winter of 1995 and 1996. To this end, a natural gas transmission line into the area is currently being constructed by Nova. This transmission line will pass within one mile of Oilexco's current leasehold.

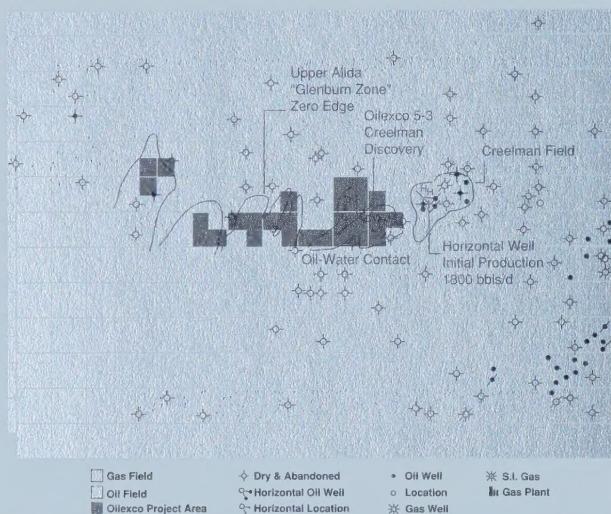
The Company maintains a 10 percent carried working interest and a nine percent working interest on all expenditures in this project under a previous joint venture, up to and including the drilling, completion, testing or abandonment of the first well on the prospect lands or until expiry of the leases associated therewith.

Southeast Saskatchewan

Oilexco's properties in this area are at Creelman, Ingoldsby and Viewfield, and are the northern-most lands of the Company's Williston Basin acreage. The Company holds interests in 5,440 gross acres (2,504 net) of land in four prospects defined seismically and geologically in this area. All of the prospects defined to date target Mississippian oil at moderate drilling depths. Development will proceed using horizontal drilling methods, subsequent to successful testing of the initial wells.

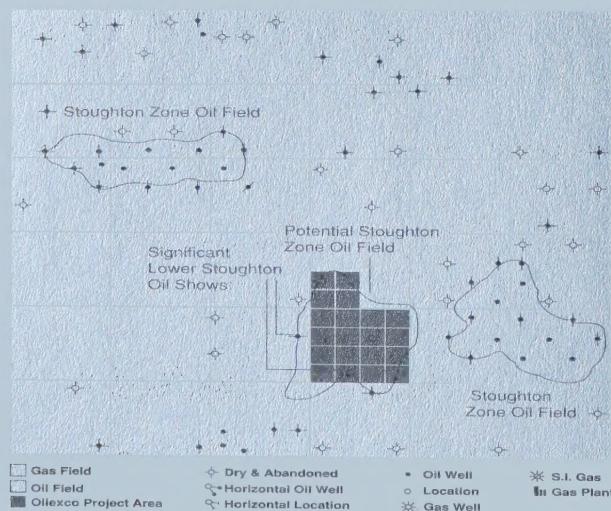
Creelman

The Creelman/Viewfield area is located approximately 80 miles southeast of Regina, Saskatchewan. Oilexco holds various working interests in 4,320 gross acres (1,880 net) and currently has one well in this area which is waiting on completion, and at least one new prospect that it anticipates drilling in 1996.



Viewfield

Oilexco also has a section-and-a-quarter (800 gross acres) of exploratory acreage at Viewfield in southeast Saskatchewan, and plans to drill one well here during 1996.



Ingoldsby

Oilexco recently acquired a 40 percent working interest in a quarter section (160 gross acres) of development acreage in the heart of an extensive oil play at Ingoldsby. The operator anticipates drilling one well on the property in 1996.

Mountrail County, North Dakota

In October, 1993, Oilexco America Inc., a wholly owned subsidiary of Oilexco, in partnership with another company, purchased approximately 177,000 gross acres (approximately 88,000 net) of undeveloped land along the Mississippian Rival formation trend in the eastern portion of the Williston Basin of North Dakota. One exploratory well was drilled on this land, resulting in a dry hole. Since that time, the bulk of the property leases have expired in 1995.

Subsequent to year end, Oilexco purchased a 50 percent interest in 8,184 gross acres (4,087 net) of land in Mountrail County, North Dakota, approximately 100 miles south of Estevan, Saskatchewan. These lands are a southern extension of the Company's properties at Creelman, Viewfield and Ingoldsby, and are also part of the Williston Basin.

Oilexco has defined three multi-zone Mississippian oil prospects seismically and geologically on its current leasehold. Prospects have been identified in carbonates of the Mission Canyon Rival and Bluell Formations, in addition to the Lodgepole Formation. The Company intends to reduce its interest to not less than 25 percent through the addition of a joint venture partner.

Land

The Company currently holds varying interests in 44,024 gross acres (14,635 net), as summarized in the following table.

Development Properties

	Gross Acres	Net Acres
Saskatchewan		
Forgan Area	5,760	2,901
Alberta		
Edson Area - Wild River Project	5,440	1,034

Exploration Properties

Newfoundland

Port au Port Area - EL1008*

Saskatchewan

Creelman/Viewfield/

Ingoldsby Area	5,440	2,504
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Alberta

Edson Area

- Sundance West Project	7,680	1,460
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Edson Area

- Sundance East Project	1,280	704
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Edson Area

- Oldman Project	4,160	790
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Senex/Talbot Lake Area

Senex/Talbot Lake Area	6,080	1,155
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North Dakota

Mountrail County	8,184	4,087
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Total 44,024 14,635

*Oilexco will earn a 12.5 percent interest in 440,000 gross acres (55,000 net) in EL1008 upon reaching target depth of the Talisman et al Long Range A-09 well.

Drilling

Oilexco participated in drilling one well during 1995 to the extent of a 36 percent interest. The well, located at Creelman, Saskatchewan, was drilled using directional technology, and is suspended pending further remedial work.

Production and Reserves

Oilexco's total average production for 1995 was 57 barrels per day, down from 70 barrels per day in 1994 due to natural declines at the Company's Forgan properties.

The following table summarizes the Company's interests, as at December 31, 1995, in producing oil and gas wells:

Producing Wells

	Gross	Net
Saskatchewan - Oil	34.0	14.01

- Includes wells capable of production but not currently producing in Saskatchewan; four wells (1.12 net) were shut in as at December 31, 1995
- Does not include wells in which the Company has only a royalty interest

Oilexco's total proven reserves at December 31, 1995 (as evaluated by Dobson Resource Management Ltd.) were 153,100 barrels of oil and natural gas liquids and 2.76 billion cubic feet of natural gas.

Proven and probable oil and gas reserves for 1995 were 192,000 barrels of oil and liquids and 3.9 billion cubic feet of gas (582,000 BOE), a 25 percent decrease over 1994 proven and probable reserve levels, which totaled 778,000 BOE.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a summary, as at January 1, 1996 of Oilexco's oil and natural gas reserves (using escalated prices and costs), and the estimated present value of future net revenues before income taxes and overhead costs attributable to Oilexco's net reserves.

	Crude Oil (MSTB)	Natural Gas (Mmcf)	NGLs (MSTB)
Proven Reserves			
Proven Producing	55.0	0.0	0.0
Proven			
Non-producing	0.0	2,231.6	82.6
Proven			
Undeveloped	0.0	528.4	15.5
Total Proven	55.0	2,760.0	98.1
Probable (50% Risked)	0.0	1,122.0	38.9
Total	55.0	3,882.0	137.0

Estimated Present Value

Discounted at:	0%	10%	15%	20%
	(\$ thousands)			
Proven Reserves				
Proven Producing	544	423	382	350
Proven				
Non-producing	7,364	2,181	1,543	1,175
Proven				
Undeveloped	1,402	548	393	297
Total Proven	9,310	3,152	2,318	1,822
Probable (50% Risked)	3,318	1,275	915	693
Total	12,628	4,427	3,233	2,515

It should not be assumed that the discounted value of estimated future net revenues is representative of the fair market value of the estimated petroleum and natural gas reserves.

Industry Overview

Due to sharply reduced commodity prices and pipeline constraints, natural gas drilling declined to 3,600 wells in 1995 from 5,400 in 1994. Storage drawdowns during the 1995/96 winter should support stronger natural gas prices during the summer months, but additional pipeline space is required to pull up western Canadian natural gas prices to the levels experienced in most of the United States.

Oil prices, on the other hand, remained relatively stable over the past year. Oilexco expects little change in 1996, with average West Texas Intermediate (WTI) prices ranging from \$US17.00 to \$US19.00/Bbl.

Due to Oilexco's highly focused exploration and development program in its core areas in Alberta, Saskatchewan, North Dakota and Newfoundland, and its interests in both oil and gas, the Company will improve financial results by focusing on high revenue, high deliverability targets.

Internally generated prospects maximize the strengths of the Company's exploration expertise through the integration of geological and geophysical data. The strategic use of an extensive seismic database of over 20,000 kilometres will be a key contributor to Oilexco's success.

Financial Review

Revenue in 1995 totaled \$637,868 including \$464,991 from oil sales and \$172,877 from other sources. Expenses before income taxes totaled \$915,988 comprising \$133,865 in operating expense, \$61,363 in royalties, \$298,619 in depletion and depreciation expense, \$1,769 in interest expense and \$420,372 in general and administrative expense. During 1995, the

Company wrote down the value of its oil and gas properties by \$193,717, representing expired oil and gas leases and dry hole expenses incurred during 1994 in the United States. This amount is included in depletion and depreciation. Cash flow from operations amounted to \$20,499. Net loss for the period was \$255,807.

Liquidity and Capital Resources

Oilexco's total capital program for 1995 amounted to \$258,661 and was funded from internal cash flow and the Company's line of credit. Oilexco intends to finance its 1996 capital program through working capital.

At the end of 1995, Oilexco maintained its credit facility in the amount of \$250,000, of which \$80,000 was utilized. The Company had working capital of \$1,197,324 at December 31, 1995, and no long-term debt.

Subsequent to year end, the Company closed two financings for total gross proceeds of \$13,800,000 of which \$1,500,000 was received on December 28, 1995. The net proceeds realized were approximately \$12,700,000 after fees, commissions and other expenses. The proceeds will be used to finance the Company's participation in its west Newfoundland drilling program and for general corporate purposes which include exploration and development in core areas, acquisition of new lands and the evaluation and possible acquisition of existing production.

Assuming all outstanding share purchase warrants and options are exercised, the Company would realize additional gross proceeds of approximately \$8,500,000.

Share Capital

On June 9, 1995, Oilexco cancelled 2,650,000 Common Shares which had been held in escrow and were voluntarily returned for cancellation from the two founders of the Company.

On December 28, 1995, Oilexco irrevocably committed to issue 1,666,667 Common Shares at \$0.90 per share for gross proceeds of \$1,500,000 at the first closing of a 5,555,556 Common Share/Special Warrant equity issue which subsequently closed on January 17, 1996.

Subsequent to year end, the Company completed and closed the above noted financing for additional gross proceeds of \$3,500,000. In addition, a second financing which closed January 31, 1996 for 4,400,000 Units/Unit Special Warrants realized gross proceeds of \$8,800,000 for the Company. Each Unit/Unit Special Warrant entitled the holder to one Common Share of the Company and one-half of one Share Purchase Warrant. One whole Share Purchase Warrant plus \$2.40 entitles the holder to acquire one additional Common Share until January 31, 1997. The agent, in addition to its fees and commissions, was granted an option to purchase 600,000 shares at \$0.90 each and 440,000 shares at \$2.00 each, until January 17, 1998 and January 31, 1998 respectively, for arranging the financing.

Shares Outstanding

	December 31, 1995	January 31, 1996
Issued	5,776,832	7,443,499
New Issue	1,666,667	8,288,889
Options	545,000	1,141,000
Agent Options	—	1,040,000
Purchase Warrants	—	2,200,000
Fully Diluted	7,988,499	20,113,388

Corporate Stewardship

Oilexco's Board of Directors consists of five members, four of which are external directors. The Company's audit committee is composed of three members, two of which, including the Chairman, are external directors.

Although the Chairman of the Board holds the position of President of the Company and Chief Executive Officer, Oilexco believes this situation is warranted at the present time because the Company is in the early stages of development. As Oilexco grows, the composition of its Board, and the Board's relationship to management, will evolve to better reflect the Toronto Stock Exchange Corporate Governance guidelines.

Safety and Environmental Risk Management

As a responsible corporate entity, Oilexco continues to review its operations to minimize the environmental impact of its oil and gas exploration, development and production activities. Oilexco is committed to the continuous use and improvement of its environmental management strategies.

All phases of oil and gas operations present environmental risks and hazards and are currently subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws, statutes, regulations, orders (including court orders), directives and guidelines. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain oil and gas industry operations. It also requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such

legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which will mean stricter standards of enforcement, civil liability, increased fines and penalties for non-compliance (including jail terms), more stringent environmental assessments of proposed projects and a heightened degree of responsibility for Oilexco, its officers, directors and employees. As well, the trend is away from confining liability to the polluter. Other responsible parties can include present and prior owners, tenants and others.

The Company maintains an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts, pollution and other business interruptions. The Company believes that it is in substantial compliance with existing environmental laws and regulations applicable to it, and is not aware of any proposed environmental legislation or regulations with which it would not be in material compliance. However, the natural gas and oil industry may, in the future, become subject to more stringent environmental protection rules. This could increase the cost of doing business and may have a negative impact on earnings in the future.

Oilexco endeavours to conduct its operations in a safe and environmentally responsible manner. The Company has prepared and uses safety, environmental risk management and emergency response manuals developed specifically for its operations. To date, Oilexco has had no material environmental incidents or lost time accidents. As well, the Company reviews future abandonment and site restoration costs annually.

MANAGEMENT'S REPORT

The consolidated financial statements and the information contained therein have been prepared by management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements under the circumstances. A system of internal accounting control is maintained, consistent with reasonable costs, to provide reasonable assurance that assets are adequately safeguarded and that financial information is appropriately maintained for the preparation of reliable financial statements.

The Company's independent auditors, Arthur Andersen & Co., who are appointed by the shareholders, conduct an audit in accordance with generally accepted auditing standards to allow them to express an opinion on the consolidated financial statements.

The Audit committee of the Board of Directors, with two of the three members not being officers of the Company, meets with management and Arthur Andersen & Co. to review these statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors.



Arthur S. Millholland, P.Geol.

President & CEO



Dennis J. Kwan, CA

Vice President, Finance & CFO

AUDITORS' REPORT

To the Shareholders of Oilexco Incorporated:

We have audited the consolidated balance sheets of Oilexco Incorporated as at December 31, 1995 and 1994 and the consolidated statements of income (loss) and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operation and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Calgary, Alberta

March 22, 1996

CONSOLIDATED BALANCE SHEETS

As at December 31

1995

1994

ASSETS (Note 5)

Current Assets

Cash	\$ —	\$ 209,634
Marketable securities	8,000	8,000
Accounts receivable (Note 9)	1,590,807	193,376
Inventory	8,518	8,414
Prepaid expenses	7,919	7,146
	1,615,244	426,570
Property, Plant and Equipment (Note 4)	2,130,496	2,164,874
	\$ 3,745,740	\$ 2,591,444

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Cheques issued in excess of bank balance	\$ 32,598	\$ —
Bank loan (Note 5)	80,000	—
Accounts payable and accrued liabilities	305,322	383,587
	417,920	383,587
Future site restoration costs	19,790	14,210
Deferred income taxes	—	22,313
	19,790	36,523
	437,710	420,110

Commitments (Note 9)

Shareholders' Equity

Share capital (Notes 6 and 11)	3,489,120	2,096,617
Retained earnings (deficit)	(181,090)	74,717
	3,308,030	2,171,334
	\$ 3,745,740	\$ 2,591,444

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board:

Arthur S. Millholland, Director

Philip C. Swift, Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)

For the year ended December 31

1995

1994

Revenues		
Oil sales	\$ 464,991	\$ 557,488
Other	172,877	311,771
	637,868	869,259
Expenses		
Operating	133,865	156,941
Royalties	61,363	84,925
Depletion and depreciation	298,619	165,734
General and administrative (Note 10)	420,372	311,627
Interest	1,769	7,161
	915,988	726,388
Income (loss) before deferred income taxes	(278,120)	142,871
Deferred income taxes (recovery) (Note 7)	(22,313)	74,648
Net income (loss)	(255,807)	68,223
Retained earnings, beginning of year	74,717	6,494
Retained earnings (deficit), end of year	\$ (181,090)	\$ 74,717
Basic earnings (loss) per share (Note 6)	\$ (0.04)	\$ 0.01

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the year ended December 31 1995 1994

Operating Activities

Net income (loss)	\$ (255,807)	\$ 68,223
Add items not affecting cash		
Depletion and depreciation	298,619	165,734
Deferred income taxes (recovery)	(22,313)	74,648
Funds from operations	20,499	308,605
Change in non-cash working capital	103,427	(122,013)
	123,926	186,592

Financing Activities

Commitment to issue shares for cash (Note 11)	1,500,000	—
Shares issued for cash	—	1,500,000
Share issue costs	(107,497)	(136,746)
Stock options exercised	—	7,500
	1,392,503	1,370,754

Investing Activities

Cash calls paid (Note 9)	(1,500,000)	—
Property acquisitions	(258,661)	(1,692,657)
	(1,758,661)	(1,692,657)

Decrease in cash for the year (242,232) (135,311)

Cash, beginning of year 209,634 344,945

Cash (cheques issued in excess of bank balance), end of year \$ (32,598) \$ 209,634

Basic funds from operations per share (Note 6) \$ Nil \$ 0.04

The accompanying notes form an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1995 and 1994

1) SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Oilexco Incorporated and its wholly-owned subsidiary Oilexco America, Inc. (together "the Company").

Oilexco Ltd., a former wholly-owned subsidiary, was amalgamated with Oilexco Incorporated effective August 31, 1994.

Property, Plant and Equipment

The Company follows the full cost method of accounting for oil and gas properties and related expenditures, whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized and accumulated in cost centres on a country-by-country basis. Such costs include land acquisition, geological and geophysical, drilling, equipment and facilities, carrying charges on non-producing properties and related overhead. Unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned, or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion. The Company has two cost centres, Canada and the United States.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale significantly alters the rate of depletion and depreciation.

The costs related to each cost centre, together with the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated proven reserves before royalties of each country. Oil and gas reserves and production are converted into equivalent units based upon estimated relative energy content.

The capitalized costs, less accumulated depletion and depreciation in each cost centre, are limited to an amount equal to the estimated future net revenue from the estimated proven reserves at year end prices and costs, plus the lower of cost or estimated fair value of unevaluated properties. On application of this test on the United States cost centre, a write down of \$193,717 was required in 1995. The total capitalized costs less accumulated depletion and depreciation, accrued future site restoration costs and deferred income taxes of all cost centres is further limited to an amount equal to the estimated future net revenue from proven reserves at year end prices and costs, plus the lower of cost or estimated fair value of unevaluated properties of all cost centres less future site restoration costs, general and administrative expenses, financing costs and income taxes.

Estimated future site restoration costs are provided for on the unit-of-production method based on the estimated proven reserves. Costs are based on engineering estimates in accordance with current legislation and industry practices. The annual charge is recorded as additional depletion and depreciation. Actual expenditures are charged against the accumulated provision as incurred.

Other fixed assets are depreciated on a declining balance basis at 20% per year.

Joint Interest Operations

Substantially all of the Company's oil and gas activities are carried out jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

Income Taxes

The Company follows the deferral method of tax allocation accounting for timing differences between taxable and accounting income. Timing differences arise mainly due to capital cost allowance and resource deductions claimed by the Company for tax purposes in amounts differing from depletion and depreciation expense.

Foreign Currency Translation

The accounts of Oilexco America, Inc. are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the year end exchange rate; non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the weighted average exchange rate for the year. Exchange gains and losses from the translation of monetary items are included in the consolidated statement of income (loss).

2) BUSINESS COMBINATION

Effective December 10, 1993, the Company (formerly Triple "8" Energy Corporation) completed a reverse take-over transaction by issuing five million common shares for all of the issued and outstanding shares of Oilexco Ltd. Oilexco Ltd. was a private company incorporated under the laws of the Province of Alberta and commenced operations on April 5, 1993. Following the transaction, the former shareholders of Oilexco Ltd. held a controlling interest of 69.2% in the Company, and Oilexco Ltd. was identified as being the acquirer for accounting purposes. The Company, deemed to be a continuation of the acquirer, changed its name from Triple "8" Energy Corporation to Oilexco Incorporated on March 1, 1994, and elected to change its fiscal year end from August 31 to December 31, commencing for the period ended in 1993.

The acquisition of the former Triple "8" Energy Corporation has been accounted for using the purchase method as detailed below.

Property and equipment	\$ 899,900
Other working capital	41,788
Bank loan	(180,878)
	\$ 760,810

The December 31, 1994, consolidated financial statements have been prepared on the basis of the historical transactions of Oilexco Ltd. except the Company's share capital structure, being the number and type of shares issued which were adjusted to reflect that of Triple "8" Energy Corporation, including the shares issued to effect this acquisition. The operations of the former Triple "8" Energy Corporation have been included from the effective date of the acquisition.

3) EXPLORATION JOINT VENTURE

The Company has acquired petroleum and natural gas rights in Alberta through direct working interest and a carried interest from participation in an Exploration Joint Venture. The initial period of the Exploration Joint Venture was two years. The Company received a 10% carried interest in all expenditures made in the joint venture area up to and including all costs associated with the drilling, abandonment, completion and testing of the initial test well on each prospect area or until expiry of the leases acquired during the agreement. To December 31, 1995, the carried interest has amounted to approximately \$611,000 (1994 - \$392,000). The Company had the right to elect to participate in any prospect area for up to an additional 9% undivided working interest not subject to the carried interest. The Company elected to participate in this additional interest in all prospect area lease acquisitions.

During 1994, under the terms of the Exploration Joint Venture, the Company received a geological fee of \$5,000 per month. The Company also provided geological and engineering professional services to the joint venture to be billed on a daily rate of \$500 per day, plus disbursements. The commitment to pay such fees was terminated effective December 31, 1994.

4) PROPERTY, PLANT AND EQUIPMENT

	1995	1994
Oil and gas properties	\$ 3,109,105	\$ 2,850,117
Tax benefits renounced to flow-through shareholders	(563,625)	(563,625)
Other	36,239	36,566
	2,581,719	2,323,058
Accumulated depletion and depreciation	(451,223)	(158,184)
	\$ 2,130,496	\$ 2,164,874

During the period the Company capitalized \$77,107 (1994 - \$164,926) of administrative overhead to oil and gas properties.

5) BANK LOAN

The Company has an available line of credit of \$250,000 which bears interest at prime plus 1.25% per annum. The loan is collateralized by a fixed and floating charge debenture in the principal amount of \$1,000,000 over all assets and undertakings of the Company, a general security agreement, an environmental indemnity and an assignment of accounts receivable. At December 31, 1995, \$80,000 was outstanding on this line of credit (1994-\$Nil). The line of credit is reviewed annually by the bank for renewal. If the line of credit is not renewed, then any balances outstanding are due and payable on demand.

6) SHARE CAPITAL

a) Authorized

- i) Unlimited number of voting Common Shares without nominal or par value.
- ii) Unlimited number of Preferred Shares issuable in series.

b) Issued

Common Shares:	Number	Consideration
Balance, January 1, 1994	7,222,925	\$ 1,237,153
Stock options exercised	12,500	7,500
Issued for cash	600,000	750,000
Flow-through shares	600,000	750,000
Share issue costs	—	(136,746)
Deferred income taxes on share issue costs	—	52,335
Tax benefits renounced to flow-through shareholders	—	(563,625)
Cancellation of escrowed shares	(8,593)	—
Balance, December 31, 1994	8,426,832	2,096,617
Commitment to issue shares for cash (Note 11)	1,666,667	1,500,000
Share issue costs	—	(107,497)
Cancellation of escrowed shares	(2,650,000)	—
Balance, December 31, 1995	7,443,499	\$ 3,489,120

The Company received proceeds of \$1,500,000 from a private placement financing which closed subsequent to year end (see Note 11). The Company irrevocably agreed to issue these shares upon the closing of the private placement. These shares were issued subsequent to year end. All associated costs were accrued in accordance with the recognition of the Company's commitment.

c) Per Share Data

Basic earnings and funds from operations per share are calculated based on the weighted average number of 6,949,481 (1994 - 8,215,777) shares outstanding during the year. Fully diluted earnings and funds from operations per share in 1994 are \$0.01 and \$0.03 respectively, and are calculated based on 10,137,625 shares before considering cancellation of escrowed shares, cancellation of stock options or expiration of outstanding warrants.

d) Stock Options

The Company has reserved 577,683 (1994 - 722,293) Common Shares for issuance under a stock option plan. Options are exercisable for a period of five years.

	Number of Options	Exercise Price
Balance, January 1, 1994	75,000	
Exercised	(12,500)	\$0.60
Granted	420,000	\$1.25
Granted	75,000	\$0.35
 Balance, December 31, 1994	 557,500	
Expired	(110,000)	\$0.60/\$1.25
Cancelled	(372,500)	\$0.60/\$1.25
Granted	410,000	\$0.40
Granted	60,000	\$0.63
 Balance, December 31, 1995	 545,000	

Stock options expire on various dates in 1999 and 2000.

Subsequent to year end, an additional 681,000 stock options were granted at a price of \$2.35 per share which expire on January 18, 2001. Also subsequent to year end, an officer exercised options to purchase 75,000 shares at \$0.35 per share and an employee exercised options to purchase 10,000 shares at \$0.40 per share.

e) Flow-through Shares

In 1994, the Company issued 600,000 flow-through shares for cash consideration of \$750,000 or \$1.25 per share. Under the terms of the flow-through share agreements, the Company agreed to use its best efforts to utilize the proceeds from the issues to incur certain qualified expenditures and renounce the related tax deductions to the subscribers. All of these obligations and obligations related to previous years issuances of flow-through shares were fulfilled by year end 1994. The qualified expenditures are recorded as oil and gas property additions net of the tax benefit renounced to the flow-through shareholders.

f) Warrants

Pursuant to the private placement memorandum dated January 28, 1994 with amendments dated February 24, 1994 relating to the sale of 600,000 Common Shares and 600,000 flow-through shares, the Company issued 800,000 Common Share warrants and 600,000 flow-through share warrants. Each common share warrant or flow-through share warrant entitled the holder to acquire by March 7, 1995 one Common Share or one flow-through share respectively, upon exercise together with payment of \$1.50 per warrant. All of the common share warrants and flow-through share warrants expired unexercised.

7) INCOME TAXES

The income tax provision differs from the expected result obtained by applying the effective tax rate of 45.3% on Canadian operations and 25% on U.S. operations (1994 - 45.1% and 25%) to income (loss) before deferred income taxes as summarized below:

	1995	1994
Income (loss) before deferred income taxes	\$ (278,120)	\$ 142,871
Expected tax provision (recovery)	\$ (78,065)	\$ 46,456
Non-deductible crown charges	11,137	18,876
Non-deductible depletion	11,316	9,316
Unrecorded benefit of accounting losses	33,299	—
Actual tax provision (recovery)	\$ (22,313)	\$ 74,648

At December 31, 1995 property, plant and equipment with a net book value of \$640,749 (1994 - \$665,714) has no cost basis for income tax purposes.

The Company has loss carry-forwards for tax purposes of approximately \$2,025,000 which expire from 1996 to 2002.

8) SEGMENTED INFORMATION

The Company's major industry segment is the business of oil and gas exploration and development. Foreign operations are not significant.

9) COMMITMENTS

a) West coast of Newfoundland Exploration

The Company entered into an Agreement with Talisman Energy Inc. to participate in drilling an exploration well on the Port au Port Peninsula on the west coast of Newfoundland. The Agreement stipulates that all funds required for the Company's proportionate share of the project be held on deposit at a Canadian Chartered Bank "in trust", with all interest earned accruing to Oilexco Incorporated. The Company does not have access to these funds until completion of this well. The total commitment for this well is approximately \$3,220,000 of which \$1,500,000 was put "in trust" prior to year end and is included in Accounts Receivable. The remaining \$1,720,000 was put "in trust" subsequent to year end.

b) Office Rent

The minimum rentals payable under a lease agreement for premises, exclusive of certain operating costs for which the Company is responsible, are as follows:

1996	\$ 23,828
1997	28,133
1998	29,305
1999	30,143
2000	31,315
thereafter	13,397
	<hr/>
	\$ 156,121

10) RELATED PARTY TRANSACTIONS

The Company pays management fees in lieu of salary for the services of certain of its senior officers. Management fees totaling \$72,000 (1994 - \$147,000) have been paid to companies controlled by these individuals in 1995. A one time severance payment was also included in 1994.

The Company pays legal fees to a law firm in which a director is a partner. Legal fees totaling \$5,209 (1994 - \$45,038) have been paid to this law firm in 1995.

The Company paid \$1,280 in consulting fees in 1994 to a company controlled by a director.

The Company paid \$5,000 in financing fees in 1994 to a company in which a director is a principal shareholder.

11) EVENTS SUBSEQUENT TO DECEMBER 31, 1995

On January 17, 1996 the Company closed a private placement financing for gross proceeds of \$5,000,000 from the issue of 4,467,405 Common Shares and 1,088,151 Special Warrants both priced at \$0.90 each. Each Special Warrant was issued for cash without restriction as to use and is convertible to one Common Share for no additional consideration, on the earlier of January 17, 1997 or five days after issuance of a receipt by the Regulatory Commissions for a final prospectus. The Company is required to use reasonable commercial efforts to obtain a receipt for the final prospectus by May 16, 1996; which is 120 days after the closing of the private placement. The Company received \$1,500,000 of the gross proceeds prior to year end and has recorded these as Share Capital at year end.

On January 31, 1996, the Company closed a private placement financing for gross proceeds of \$8,800,000 from the issue of 3,350,000 Units and 1,050,000 Unit Special Warrants both priced at \$2.00 each. Each Unit was issued for cash without restriction as to use and is comprised of one Common Share and one half of one Common Share purchase warrant. Each Unit Special Warrant was issued for cash without restriction as to use and is comprised of one Common Share warrant and one half of one Common Share purchase warrant. Each Common Share warrant is convertible into one Common Share for no additional consideration, on the earlier of January 31, 1997 or five days after issuance of a receipt by the Regulatory Commissions for a final prospectus. The Company is required to use reasonable commercial efforts to obtain a receipt for the final prospectus by May 16, 1996. One whole Common Share purchase warrant plus \$2.40 will enable the holder to purchase one additional Common Share of the Company until January 31, 1997.

Subsequent to year end, the Company issued 1,040,000 Agents Common Share Warrants to purchase 600,000 Common Shares at \$0.90 each and 440,000 Common Shares at \$2.00 each until January 17, 1998 and January 31, 1998 respectively, to the Agent of the private placement financings completed subsequent to year end.

CORPORATE INFORMATION

Directors

Arthur S. Millholland ¹

President

Oilexco Incorporated

Calgary, Alberta

Denis L. Russell ^{1,2}

Petroleum Engineer

West Vancouver, British Columbia

William H. Smith

Partner

McCarthy Tetrault

Calgary, Alberta

Philip C. Swift ¹

Managing Director

ARC Financial Corporation

Calgary, Alberta

John F. Cowan

President

CanEnerCo Ltd.

London, Ontario

¹ member of the audit committee

² chairman of the audit committee

Management

Arthur S. Millholland, P. Geol.

President and Chief Executive Officer

Dennis J. Kwan, C.A.

Vice President, Finance and Chief Financial Officer

Auditors

Arthur Andersen & Co.

Chartered Accountants

Calgary, Alberta

Bankers

Royal Bank of Canada

Calgary, Alberta

Canadian Western Bank

Calgary, Alberta

Legal Counsel

McCarthy Tetrault

Calgary, Alberta

Field and Field Perraton

Calgary, Alberta

Transfer Agent and Registrar

Montreal Trust

Calgary, Alberta

Share Listing

The Alberta Stock Exchange

Trading Symbol: "OIL"

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